

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
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CEA-01 L-03 H-01 PA-01 MMO-01 /099 W
-----042420 081412Z /43

R 081331Z MAY 78

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7393
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 3651

E.O. 11652: N/A
TAGS: EFIN, BR
SUBJ: SIXTH MIN-DEVALUATION AND APRIL INFLATION DATA

REF: A) BRASILIA 2340 B) BRASILIA 3650

1. EFFECTIVE 5 MAY THE CRUZEIRO/DOLS US EXCHANGE RATES ARE 17.270 BUYING AND 17.370 SELLING. THIS SIXTH CHANGE IN 1978 CAME ONLY 9 DAYS AFTER THE LAST ADJUSTMENT AND AMOUNTED TO 0.6 PERCENT. THE CUMULATEIVE DEPRECIATION OF THE CRUZEIRO/ USDOL RATE INCREASED TO 8.3 PERCENT IN 1978 TO DATE AND APPROXIMATELY 26.7 PERCENT IN THE LAST 12 MONTHS.

2. GETULIO VARGAS FOUNDATION RELEASED DATA SHOWING INFLATION IN APRIL (AS MEASURED BY THE GENERAL PRICE INDEX-INTERNAL SUPPLY) OF 3.4 PERCENT OR APPROXIMATELY EQUIVALENT TO THE 3.3 PERCENT REGISTERED IN MARCH. IN SPITE OF THE HIGHER RATE OF INFLATION IN JAN-APR 1978 THAN IN THE SECOND HALF OF 1977, THE PERFORMANCE STILL SHOWED IMPROVEMENT COMPARED TO THE FIRST FOUR MONTHS

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OF 1977 WHEN INFLATION WAS REACHING ITS PEAK. THE CUMULATIVE INCREASES WERE 13.3 PERCENT IN THE FIRST FOUR MONTHS OF 1978 AND 35.6 PERCENT IN THE LAST 12 MONTHS. THE CORRESPONDING DATA AT THE END OF APRIL 1977 WERE 16.0 PERCENT AND 46.9 PERCENT. THE COST-OF-LIVING IN RIO ROSE 2.3 PERCENT IN APRIL 1978, 11.3 PERCENT IN JAN-APR, AND 36.4 PERCENT IN THE 12 MONTHS ENDING

IN APRIL, THE WHOLESALE PRICE INDEX INCREASED 3.5 PERCENT IN APRIL, 14.3 PERCENT IN JAN-APR, AND 34.3 PERCENT IN MAR 77-APR 78.

3. COMMENT - MINISTER OF FINANCE SIMONSEN ATTRIBUTED THE ADMITTEDLY HIGH RATE OF INFLATION IN MARCH AND APRIL TO THE ADVERSE EFFECTS OF THE SERIOUS DROUGHT IN THE SOUTH AGRICULTURAL PRODUCTION. HE HAS STATED THAT AGRICULTURAL PRICES INCREASED 6.7 PERCENT IN APRIL, COMPARED TO ONLY 2.7 PERCENT FOR NON-AGRICULTURAL PRODUCTS. SIMONSEN BELIEVES THAT THE MAIN IMPACT OF THE DROUGHT HAS BEEN RECORDED AND THAT PRICE PRESSURES WILL DIMINISH IN COMING MONTHS. HOWEVER, WE DOUBT IF THE FULL EFFECT OF THE DROUGHT HAS BEEN FELT YET AND ALSO SUSPECT THAT THE RECENT 41 PERCENT ADJUSTMENT IN THE MINIMUM WAGE WILL SERVE TO SUSTAIN THE RATE OF INFLATION IN THE SHORT-RUN.

JOHNSON

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